

# GOVERNMENT AND MANAGEMENT

Address by  
THE RT HON. LORD BEECHING  
to the  
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IT is now some long time since I first promised to talk to you on the subject of Government and Management. In the meanwhile, I have used the same subject as the basis for an oration to the London School of Economics. I must, therefore, warn anybody who has been so misguided as to be present on both occasions that I shall, this evening, cover the same ground and, for the sake of economy of effort, use almost exactly the same words. There is, however, one important difference: on the previous occasion there was no opportunity for discussion. This evening there will be, and I greatly look forward to that.

With good reason, we, in Britain, take pride in having evolved a highly developed form of democratic government, and in having propagated it, with some changes in form, in many other countries of the world. In parallel, over the last two centuries or so, we have undergone an industrial revolution, in which we led the world until the beginning of the present century. Our rapid evolution of an increasingly democratic form of government and of industrialization went hand in hand, and it is not easy to decide which led the way and which contributed most to our national success. Neither, I am sure, was ever completely satisfied with the other, and the pattern of both changed progressively as a result of mutual influences and as a result of external reforming pressures. Nevertheless, until the last few decades, we did not have much cause, or perhaps I should say much awareness of cause, to survey the international scene and feel dissatisfied with our national performance relative to that of others. Under those circumstances, neither the basic structure of our industry nor

the basic system of government was seriously questioned by the people as a whole.

Now, however, when we compare ourselves with others, we are increasingly dissatisfied with what we see. We are dissatisfied not merely because others have caught up with us, and in some cases overtaken us—to a degree that was inevitable—but dissatisfied because our own industry is not growing as we know it should. Under these circumstances, it seems to me that we take a one-sided view of the problem. We tend to assume that our governmental system is basically sound, even though government's exercise of power may not always be wise, but that there is something chronically wrong with British industry; something which, in the end, can only be attributed to defective attitudes on the part of management, and on the part of all our people. Nobody would seriously suggest that we are less able to acquire and apply skill than other people, so if we don't do so it must be because we do not have the urge. If we do not have the urge it is due either to some fundamental lack in us, which I do not believe, or to the damping effect of the whole social and economic framework which we have created for ourselves.

But, you may say, if we have created the social framework which weakens our urge to be enterprising and efficient, can you say that our lack of urge is not due to a fault in ourselves? Is not the creation of the soft framework itself a manifestation of just the same basic defect in our national character which would, acting directly, make us lack industrial enterprise? The answer is that *it is not*. The whole effect of government comes in between.

The urge and capacity to innovate, to improve, and to drive things forward is very unevenly spread; it is highly developed in only a few, it tails away to a very low level in many, and becomes negative in many more. On the other hand, the desire to receive benefits of our own choosing, without any corresponding penalty, is common to all of us. Moreover, as all economists know, the connection between visible benefits and

remote penalties is often obscure, however overwhelmingly important the effects of the latter may be.

It is a primary responsibility of all governments to strike a proper balance between these conflicting influences. This is a task that only a government can perform, but, if a government is weak and exposed to the pressures of an ill-informed electorate, the balance is always likely to be struck in favour of the visible short-term benefits at the expense of other factors which, in the longer term, may prove even more desirable because they are even more basically necessary.

Viewed in relation to the world as a whole, our form of government does not look weak, and our electorate is relatively well informed. Even so, there is a great deal of evidence that our form of government is becoming progressively more and more incapable of performing the tasks which it is essential for a government to perform, to say nothing of the many other tasks which it has, deliberately or inadvertently, taken upon itself over the years. Moreover, our position as a small, densely populated island, with severely limited natural resources, and with an expectation of a continuingly high standard of living, means that, to survive satisfactorily, we must manage our affairs exceptionally well, and must have an exceptionally effective system of government if we are to do so. In other words, there is no respect in which we are under stronger compulsion to innovate and improve than in respect of government itself.

This may come as a startling thought to some of you. But why should it? When conditions are changing rapidly, organizational structures quickly get out of phase with circumstances. Large industrial organizations find it necessary to reconstruct themselves completely every few decades, even though they may readily accept evolutionary change in between. Government itself does not hesitate to attempt changes in the structure of major industries, or even of our national industry as a whole. By so doing, it completely alters its own function in relation to a rapidly changing situation, and yet its

own evolutionary change is very slow. Therefore, the necessity for radical reform of the whole structure of government should come as no surprise. In relation to almost any other form of human activity, the need would be glaringly apparent.

Consider the changes which have taken place in government's role, with no more than minor changes in its basic structure. In the last century, with a buoyant economy, consistently producing a disposable surplus, the task of government was a relatively simple one. It established a general framework of legislation; it disposed of a minor and fairly readily accessible part of the country's wealth, through the armed forces and limited social services. Its general managerial function was small.

Now, however, the position is quite different. Government's own expenditure is a large part of the national income. It exercises direct control over a large part of the economy, and exercises a strong general control over the whole of it. It is directly responsible for large sections of activity such as education and the health service; it is responsible, at one stage removed, for other large sections of the economy embraced by the nationalized industries; and through its purchasing power it determines the fate of other sections of industry, the most obvious, but by no means the only example, being the aircraft industry. More and more it has assumed a role akin to that of the top management of other large organizations, and, as such, its performance can fairly, and indeed must, be judged by the same criteria.

I am not going to argue about the desirability of government assuming a general managerial role. It has done so, and will continue to do so. What is of importance, therefore, is that it should understand its role and perform it well. In particular it must understand the logic of the situation in which the top management of any large and complex organization always finds itself, and accept that the resulting constraints apply to governments at least as much as to others.

If we consider top management of any other large organization it is not difficult to say how it must behave.

Because it cannot possibly comprehend its business in detail, top management must leave responsibility for running the various parts of its business to other people, and the more complex and diversified the organization is, the more necessary this becomes.

It should take to itself only those powers which enable it to achieve beneficial co-ordination between the component parts, or to establish a general framework of policies and rules which will have that effect, and the more complex the organization, the less particular must top management's influence become.

Having reserved some responsibilities to itself, limited so far as possible to those tasks which only it can perform, it should then, above all else, discharge those responsibilities well. It must remember, too, that it is navigating a big ship, not steering a rowing boat and, therefore, refrain from attempting manœuvres which the inertia of the system does not permit.

What it positively must not do is to fail in its own tasks and then, neglecting to put its own performance right, attempt to repair the effects of that failure by direct interference in detail.

If it falls into this ever-present trap, it will finish by failing to do its own job, which nobody else can do, while interfering more and more diligently in other people's business, which it cannot do properly anyway.

No doubt you feel that all I have just said is boringly obvious. So it is, but, apparently, only obvious in relation to every top management except government.

Let us look at some features of the performance of successive governments here in Britain over the post-war period. I am going to speak about home affairs only, and about control of the economy in particular. I am not going to quarrel with objectives, on a party basis. I shall refer only to national objectives which are common to both parties, and accepted by all of

us, and then judge the *competence* with which they have been pursued.

I take, for this purpose, three interrelated objectives, which have been nationally accepted, government objectives ever since the last war—for a period of twenty years.

First, a determination to raise our rate of increase of productivity from the average of about 1·5 per cent. per annum which had persisted for the previous fifty or sixty years.

Secondly, a determination to maintain full employment.

Thirdly, a desire to stabilize the growth of the economy.

When we look at our achievements in these respects, what do we see? Let me say at once that our performance has been much better than total failure, but it has also fallen well short of adequate success.

So far as productivity is concerned, we had a target of an annual rate of increase of 3 per cent. per annum set as far back as 1947-8. This was tacitly subscribed to by subsequent governments, until the sights were raised to rather more than 4 per cent. in 1962, and a target around that level has been aimed at by subsequent governments. But, over this twenty-year period, the actual achievement has been a rather shaky 2 per cent. Not total failure, but not thought to be adequate success even by parties in power at any one time. Not nearly good enough to enable us to keep our relative position in the international league.

The other two objectives, full employment and stable growth of the economy, must be taken together, because they so easily become incompatible. We all agree that we want the highest level of employment which we can sustain. We all know that over-employment is bound to run us into intense trouble and instability. The whole problem is to achieve the highest level of employment that we can, compatible with stability and growth. Stability, because if we don't achieve stability we shall have sharp bursts of relatively severe unemployment. Growth, because if we don't grow adequately

fast we shall become increasingly unable to control our destiny at all. How then have we fared in this respect? Again, we see a record which falls short of total failure, but which is far short of adequate success. The situation of choice has been the politically expedient one of over-employment, punctuated at intervals by tardy and panicky action to escape temporarily from the consequences. Since the unsettled immediate post-war years and the devaluation of 1949, we have experienced four balance-of-payments crises, each deeper and more prolonged than the last, each corrected by the sharp application of temporary measures of increasing severity, and each resulting in a higher and higher level of induced unemployment—440,000 at the end of 1952, 640,000 in 1958-9, 815,000 in 1963, and probably going to a higher peak this time.

Instead of stabilizing the economy we have induced fluctuations of increasing amplitude. Over the period, the underlying trend in our balance of payments has been downwards; our average rate of growth has compared unfavourably with that of many other highly industrialized nations; we have suffered the damaging effects of long periods of over-employment, even though the average level of employment has been pulled down by short bursts of unemployment. The attempts to control the economy more sharply than its nature will permit has had an increasingly disturbing effect on industry's investment plans, and the stop/go behaviour has had an adverse effect on exports. In boom periods the home demand has absorbed too much of the available capacity, and harder home conditions have not lasted long enough to cause exports to build up.

Long-term failure of an organization to achieve its major objectives must be attributed to the top management. Local or short-term failures may be attributable to local management, or to the influence of unforeseeable circumstances, but general failure over a long period must be attributed to the top management and to the general framework of conditions which they are responsible for creating.

It should be quite clear that I am not just expressing a carp-ing personal dissatisfaction with our performance over these years. Successive governments have themselves been dis-satisfied, but they have reacted as bad top managements do. They have interfered more and more in detail by applying all sorts of selective inducements and controls, while failing to put their broad policies right. We have had general incentives to capital expenditure, and regionally selective inducements; and now we have incentives which differentiate between types of plant and types of use. We have had wage freezes and selec-tive releases from wage freezes, and now we have the Prices and Incomes Board and a Selective Employment Tax. We have had the Monopolies Commission to limit amalgamations, and now we have the Industrial Reconstruction Corporation to encourage them. We had a Ministry of Science and now we have a Ministry of Technology. We may yet have a Ministry of Arithmetic, because arithmetic is also a good thing for management to use.

Over and above all this we have had constant criticism and exhortation of management and workers. We have had, too, a persistent conviction on the part of governments that, if only people could be made to understand that the combined effect of their present individual actions is not in their own best long-term interests, they would behave differently. But, the fact is that managements and employees have pursued their own proper interests fairly successfully within the changing and unpredictable circumstances in which they have found them-selves. They do understand that some of the actions which present circumstances cause them and others to take in their own immediate interests do not combine to serve their best long-term interest, but they also know that they, individually, cannot change communal behaviour. Only the government can do that, by establishing conditions such that the direc-tions in which it is most profitable for management and men to seek their own ends will coincide more closely with ways in which the more general and longer-term interest will also be

served. Governments' failure to do this has long defeated their purpose, and the failure will be made worse if, in frustra-tion, they continue to resort to detailed controls.

I would, if I had time, also remind you of governments' own poor performance as direct managers of activities such as the health service; of the absurdities of changing the top managerial structure and policies of massive organizations such as the railways every few years; and of the dismal and extremely costly consequences of many of governments' own incursions into the field of technology. But I shall not have time, because I want to tell you, instead, some of the reasons why I think that our present form of government has failed, and will probably continue to fail, as a form of top manage-ment.

The basic reason is that our Parliamentary system as a whole, in conjunction with means of mass communication and the organized power of sectional interests, has evolved to the point where the government is so strongly and continuously subject to the pressures of the electorate that it cannot do its main job properly. It may seem admirable, and a most ad-vanced application of the democratic principle, to have the government subject to continuous and detailed influence by the people. But is it?

The essential role of government is to balance the long-term interests of the community against short-term interests, to control sectional interests for the sake of the general inter-est, and to weight some of the more obscure basic considera-tions properly in relation to immediately apparent benefits. It is sensible and desirable that a government to do these things should be selected democratically, but it is not sensible to do so by such processes that the government is deprived of free-dom to do its task properly when selected.

Our governments are always too close to an election. For too much of their time they are either trying to escape from the absurdities arising from the last one, or thinking of the next one. In relation to the time cycle of many of the events which

they are attempting to control, and in relation to the time it takes for many of their actions to come to fruition, their secure tenure of office is too short. It is, therefore, very difficult for governments to play their essential part, by weighting long-term considerations properly. It is very difficult for them to believe that any long-term consideration can be more important than continuation of their power to govern.

Less obvious in its effect, and for that reason more insidious, is the dependence of the government upon the maintenance of a fair degree of harmony in its own party. The necessity for the government to answer for its actions in detail in the House, and to placate and cajole the sectional interests within its own party ranks, often means that its decisions are riddled with compromise when made, and, sometimes, subsequent concessions in detail destroy a general decision altogether. In effect, the government finds itself in the position of a board of directors with a general meeting of shareholders going on throughout the year. They are not merely judged at intervals on the basis of their general performance, but are questioned and harassed continuously in relation to every detail of their decisions.

Ministers are, of course, very well aware of these difficulties, but they tend to accept them too readily, as unavoidable features of political life. They will, having accepted some rather miserable compromise, console themselves by saying, once more, that 'Politics is the art of the impossible.' But if more of them had made things happen in other places, and had less exclusively political experience within a hallowed system, they might come to the conclusion that a system which makes so little possible, in relation to what is truly necessary, is itself a system which should be changed.

In this last respect, things get worse. Under circumstances which make it increasingly necessary to assemble within the Administration a group of men of the highest calibre, with a diversity of talents and experience, what do we see? We see a continuing necessity to make ministerial appointments almost

exclusively from the party ranks within Parliament. We see a diminution in the status of the backbench member, a growth of the professional politician, and a decline in the influx of people of external experience and achievement. As a result, we see the top-level management of the country's affairs entrusted to a group of men who have to be drawn from a short list of people who have themselves been chosen for reasons which are largely irrelevant. It is not surprising that some ministers are less than competent. What is surprising is that we still get some good ones. Unfortunately, they themselves are not sufficiently surprised.

You may reasonably expect that, having criticized so much, I shall now go on to tell you what should be done. But I am not going to make specific suggestions, because it is quite certain that effective changes will only be agreed upon after a great and prolonged national debate. Nevertheless, some of the requirements do spring logically from the criticisms themselves. They are these:

We need a top executive team, formed by tapping the total national talent, for the purpose of doing the most difficult directorial job in the country.

We want an executive with a continuity of life long enough to match the time span of the major problems with which it has to deal.

We need an executive which is not too fully or continuously exposed to the pressures of the electorate, through Parliament, so that it can strike a proper balance between the short- and long-term interests of the community. An executive which can afford to be somewhat unpopular in the short term. An executive which will not have to pretend to do the impossible, by attempting to achieve results by methods which are too innocuous to succeed.

We need, I think, an executive which is separated from the legislature, so that it does not have too much freedom to change the ground rules to solve its immediate problems.

All these things are, I believe, quite obviously desirable. How they can best be achieved by a suitably designed government structure, subject to an adequate degree of democratic control, is a matter for debate, and my purpose is to get the debate started.

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